Freedom
Credit Union

May 17, 2014

The Honorable Debbie Matz, Chairman
National Credit Union Administration
1775 Duke St
Alexandria, VA 22314

Dear Chairman Matz:

Freedom Credit Union is a $25 million credit union located in Provo, Utah. We are community-chartered and serve approximately 3,200 members. We are actively involved in growing our credit union and finding better ways to serve our members. We also participate in the credit union movement through various trade associations and industry events.

We would like to provide our input on the proposed Risk Based Capital (RBC) requirement being considered by NCUA. Although we are not directly subject to this proposed regulation, we nevertheless are concerned enough about this proposal to provide our input. While we are generally supportive of the *concept* of risk-based capital, we do not support the proposal as it currently stands for many reasons.

Designation of "Complex"

Under the proposed regulation, any credit union over $50 million is considered "complex." It was only recently that NCUA raised the threshold for a credit union to be considered small to that same amount. It seems odd that a credit union at $49 million is "small" while one of $51 million is "complex."

Duplicates ALM Requirements

The proposed regulation duplicates many of the same functions as Asset-Liability Management (ALM) by assigning higher risk-weights to longer term assets. Implementing RBC on top of ALM is unnecessarily burdensome on credit unions without providing additional value.

Disregards Management Expertise

Significantly, the RBC proposal does not take into account prudent asset-liability management functions such as intentionally acquiring long-term liabilities to offset the interest rate risk inherent in long-term assets. It simply assumes that all longer-term assets of a specific class are inherently more risky, and that the increased risk is the same for all credit unions. It disregards the analysis, decisions, and actions of a credit union's management team and Board of Directors, and instead imposes a "one-size-fits-all" rule designed and administered by outside regulators.

Is Unnecessary

In the recent financial crisis, credit unions generally fared much better than their for-profit counterparts. It could be argued that the crisis "shook out" weak credit unions; those that are left are those that understand and prudently manage risk. Imposing higher capital ratios on these credit unions is akin to preaching to the choir.

Examiner Discretion

We are very concerned about the ability of individual examiners to apply a more stringent RBC requirement than required by statute or this proposed regulation. Unfortunately, it has been the experience of many credit unions, ours included, that there is a great deal of variability among examiners. Introducing "discretion" into capital adequacy gives so much room for individual interpretation that we fear capital adequacy would be a constantly moving target.

We already struggle with our Allowance for Loan and Lease Losses calculations. It seems that every examiner has a different perspective on this issue. We are constantly debating what is "adequate," whether the Qualitative and Environmental factors we are using are appropriate, and if they are, whether we have the right weight on those factors. All too often, the recommendations of one examiner are implemented, only to be picked apart by the next examiner.

Capital adequacy is one of the most important issues we face, and giving so much latitude to examiners to determine what is adequate is very troublesome.

Specific Risk Weights

The risk weights assigned to various classes of assets are not consistent with similar requirements for small banks under Basel III. Again, the concept of requiring more capital to protect against losses from risker classes of assets is one that we support. But NCUA's current proposal treats credit unions much more harshly than Basel III in nearly every case. Given the historically-solid performance of credit unions and the fact that we generally are much less likely to engage in risky behavior, this seems unjustified.

Timeframe for Compliance

The regulation as proposed is scheduled to be implemented in just 18 months. Banks were given up to 9 years to phase in their Basel III requirements; NCUA's proposal seems unduly rushed. Given the significance of the changes being contemplated, this is simply not enough time to allow credit unions to make necessary adjustments to their balance sheets without potentially harming members through "cold turkey" elimination of specific programs, primarily those dealing with longer-term assets such as mortgages. Members may bear the brunt of the costs of this new regulation as they find fewer competitive alternatives from their local credit union.

Effect on the Credit Union Movement

Our most significant concern with this proposal is the effect it may have on our industry. Many people in the credit union movement are driven by a member-service mentality. We choose to work in this industry because we thrive on providing exceptional service to our members, and find great personal fulfillment by working for *our members* instead of for *profit-focused shareholders.*

As we have monitored communication from other credit unions, we are troubled by what we are hearing. Larger credit unions are concerned that the unintended consequences of this proposal will put them at a distinct competitive disadvantage, rendering the credit union charter meaningless in a decade or less. In fact, Jim Blaine, President/CEO of State Employees' Credit Union in Raleigh, N.C. has publicly declared that this proposal may force his credit union to consider converting to a cooperative bank.

As a small credit union, we compete directly with many large credit unions in our area. But rather than wishing these "big guys" would go away, we are grateful for their leadership. They provide outstanding service to their members, and force us to stay sharp in order to provide a meaningful alternative to our members. In addition, larger credit unions provide a significant portion of the funding needed to maintain trade organizations and even our regulatory agencies. If the largest credit unions *en masse* determine that another charter allows them to better serve their members, we fear this could doom the entire credit union movement, and that would truly be tragic.

These are some of the primary reasons why we do not support the Risk-Based Capital proposal currently being considered. We join with many other commenters and lawmakers to call on NCUA to reconsider this proposal.

Thank you for taking time to consider our concerns.

Respectfully,

Ken Payne

Ken Payne
President/CEO